

Message Text

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ACTION TRSE-00

INFO OCT-01 EUR-25 EA-11 ADP-00 NEA-10 AID-20 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 XMB-07

OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 NSC-10 SS-15

STR-08 CEA-02 L-03 H-03 PRS-01 PA-03 USIA-15 SEC-03

RSR-01 /184 W

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P R 071600Z AUG 73

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 183

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMCONSUL MILAN

C O N F I D E N T I A L ROME 7947

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

PASS TREASURY AND FRB

REF: (A) ROME 7576; (B) ROME 7376; (C) ROME 7482; (D) ROME 5593;
(E) ROME 7438

1. SUMMARY: ANTI-SPECULATION MEASURES TAKEN BY GOI ON
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JULY 27 HAVE SO FAR HAD MARKED POSITIVE EFFECT ON

LIRA. LIRA, PARTICULARLY FINANCIAL LIRA, STRENGTHENED OVERALL AGAINST ALL CURRENCIES AND SPREAD BETWEEN FINANCIAL AND COMMERCIAL RATES HAS NARROWED. BANK OF ITALY HAS NOT INTERVENED IN COMMERCIAL MARKET SINCE JULY 27 MEASURES WERE ADOPTED. PROVISIONAL MONETARY MOVEMENTS DATA THROUGH JULY 15 SHOW GLOBAL DEFICIT OF DOLS 1,733 MILLION. END SUMMARY.

2. DURING LAST WEEK IN JULY, WEIGHTED AVERAGE DEPRECIATION OF LIRA SINCE SECOND DOLLAR DEVALUATION IN FEBRUARY WAS MORE THAN 18 PER CENT. ON JULY 27 FINANCIAL LIRA CLOSED AT 623.50 AND COMMERCIAL LIRA AT 582.25. SPREAD BETWEEN TWO RATES HAD BROADENED TO AROUND 40 LIRE PER DOLLAR. SINCE JULY 27 ANTI-SPECULATIVE MEASURES (REF A) WERE ADOPTED AFFECTING ITALIAN CAPITAL INVESTMENT ABROAD, ADVANCE IMPORT PAYMENTS, FOREIGN EXCHANGE POSITION ACCOUNTING PROCEDURES OF BANKS AND OPERATIONS OF MONEY BROKERS, BOTH COMMERCIAL AND FINANCIAL LIRA RATES STRENGTHENED PERCEPTIVELY, ESPECIALLY LATTER. ON AUGUST 7, COMMERCIAL LIRA CLOSED AT 576.625 WHILE FINANCIAL LIRA WAS 601.60. SPREAD BETWEEN TWO RATES HAS THEREFORE DROPPED TO AROUND 25 LIRA AND FINANCIAL LIRA DISCOUNT AGAINST COMMERCIAL LIRA DROPPED TO 4.3 PERCENT FROM 7.1 PER CENT ON JULY 27.

3. BANK OF ITALY CENTRAL DIRECTOR FOR EXCHANGE OPERATIONS. ERCOLANI, INFORMED EMBOFF AUGUST 7 THAT BANK HAD NOT ONLY NOT INTERVENED IN COMMERCIAL MARKET SINCE JULY 27 MEASURES WERE TAKEN, BUT HAD ACTUALLY TAKEN IN SOME FOREIGN EXCHANGE DURING PAST WEEK. SINCE FINANCIAL LIRA FLOAT HAS BEEN CLEAN ALL ALONG, RECENT STRENGTHENING OF LIRA HAS BEEN PRIMARILY RESULT OF ANTI-SPECULATIVE MEASURES. ERCOLANI EXPRESSED CAUTIONS OPTIMISM ABOUT SERIES OF ECONOMIC MEASURES TAKEN BY RUMOR GOVERNMENT DURING LAST TWO WEEKS, NOTING THAT TO DATE EFFECT APPEARED POSITIVE. HOWEVER, HE EXPRESSED DOUBTS AS TO PROBABLE SUCCESS OF JULY 24 ANTI-INFLATIONARY PRICE FREEZE BECAUSE OF INADEQUACIES OF SUPERVISION PROCEDURES (REF B).

4. IN RESPONSE TO EMBOFF'S QUESTION CONCERNING RECENT PERFORMANCE OF STOCK MARKET, ERCOLANI SAID THAT SHARP PLUNGE OF MARKET OF JULY 30 (6 PER CENT LOSS IN ONE DAY'S TRADING) CONFIDENTIAL

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AND AGAIN ON AUGUST 6 (4 PER CENT LOSS IN ONE DAY'S TRADING) PRESENTED A REACTION AGAINST GOVERNMENTAL ECONOMIC POLICIES. DURING PAST SEVERAL YEARS EASY MONETARY POLICY WAS PURSUED TO PROMOTE ECONOMIC RECOVERY WITH RESULTING HIGH LEVELS OF INFLATION AND SPECULATIVE ACTIVITY. CREDIT ALLOCATION MEASURES OF JUNE 18 AND JUNE 26 (REFS C AND D) CAUSED BANKS TO CUT CREDIT TO STOCK MARKET OPERATORS, MANY OF WHOM HAD BEEN RIDING SPECULATIVE WAVE, CAUSING DEPRESSION IN MARKET.

5. PROVISIONAL MONETARY MOVEMENTS DATA THROUGH JULY 15
SHOW GLOBAL DEFICIT OF DOLS 1,733 MILLION OF WHICH
DOLS 1,363 MILLION WAS FINANCED FROM OFFICIAL RESERVES AND
DOLS 370 MILLION FROM WORSENING IN FOREIGN POSITION OF COMMERCIAL
BANKS.DURING FIRST 15 DAYS OF JULY OVERALL DEFICIT WAS DOLS
276 MILLION FINANCED BY LARGE REDUCTION IN NET OFFICIAL
RESERVES OF DOLS 503 MILLION WHILE COMMERCIAL BANKS POSITION
IMPROVED BY DOLS 227 MILLION. EVIDENTLY BANKS ARE
CONTINUING TO PAY OFF EUROMARKET BORROWINGS USING PROCEEDS
FROM LONG TERM BORROWINGS BY VARIOUS STATE RELATED AGENCIES
(REF B). AS OF JULY 15, EUROMARKET BORROWINGS BY IMI, 8:807,
CCOP AND ANOTHER AS YET UNSPECIFIED AGENCY, TOTALLED
DOLS 1,115 MILLION. PART OF DOLS 1,000 MILLION ENEL LOAN WAS
RECEIVED LAST PART OF JULY AND REMAINDER WILL BE RECEIVED IN
AUGUST ON WEEKLY INSTALLMENTS BASIS. VOLPE

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